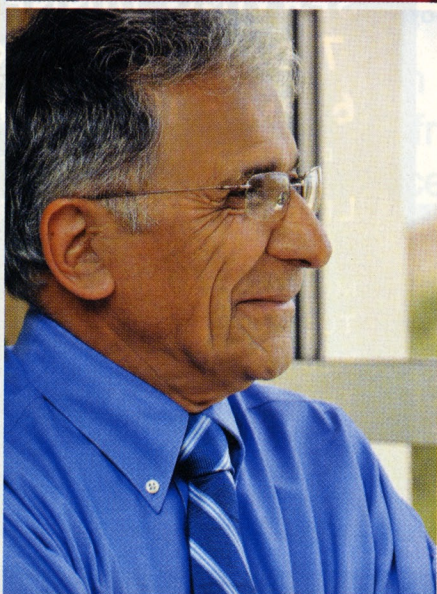


Hassanali Mehran

After Mr. Rob Henriquez upon the completion of his term of office left as President of the Central Bank of Aruba, we heard the name of the new President Hassanali Mehran. Mr. Mehran is known as a person of integrity and also with an impressive resume and credentials. It is no secret that he was responsible for certain reports of the IMF on Aruba, during his tenure there. As the new Central Bank President (CBA) since July 23, 2007, he has been quietly doing his work at the bank.



YOU MUST ALWAYS TELL THE TRUTH, JUST BE MINDFUL HOW YOU SAY IT

Hassanali Mehran was born in Iran, and after finishing school went for higher study in England. He graduated in economics and political science from the University of Nottingham. He was a lecturer in economics and statistics at the University of Bristol before joining the International Monetary Fund in 1968. He left the IMF in 1969 and served in various capacities in Iran, including Governor Central Bank of Iran before rejoining the IMF in 1979, where among others he served as the senior advisor in the IMF's Monetary and Exchange Affairs Department before his retirement from the IMF in 2003. During his career with the IMF, he also headed the IMF's delegation responsible for making a financial report for Aruba, with recommendations on what steps to take for monetary policy and other central banking issues. That's how he found out about Aruba, enjoyed very much the short stays on the island and was chosen by the IMF and Aruban Government as the head of the new Central Bank of Aruba in 1986. After establishing the central bank he returned to the IMF and subsequently, at the invitation of the Government of Aruba he returned to Aruba to start the Aruban Investment Bank in 1987. He remained as President, AIB until 1991 when he once again re-joined the IMF. He is now back on the island as the President of the Central Bank of Aruba.

The relation with the government was not very amicable in the last year for the former bank president, we inquire about the present state of affairs.

"Our relation with the government has been very good. Under law we are the financial advisors to the government; we aim to coordinate monetary and fiscal policies and we monitor inflation and developments very closely." Mehran says that all communication with the government is very congenial. He feels that the Central Bank has the means to fulfill its functions independently.

The new Central Bank building is an impressive one and the fact that it was built in a proposed tourism corridor received some criticism by the present government. The location of the bank was approved by a former government coalition. The beautiful building also features state of the art security measures. We are interested in knowing more about the financial position of Aruba, so after the proper security screening we were welcomed by Mehran for the interview. **"The main purpose of the CBA is to maintain the internal and external value of the Aruban florin and to promote the soundness and integrity of the financial system"**. That must have been easier said than done, Aruba had not heard the word 'inflation' even mentioned in the last few years. It came back in use, in our everyday lexicon with a ven-

THE INFLATION DIFFERENTIAL WITH THE UNITED STATES OUR MAIN TRADING PARTNER WIDENED

geance. Inflation hit a high of 10.2% in December 2007, which was a surprise for most sectors. **"Of course the CBA is extremely concerned about these inflationary tendencies, we have had extensive discussions on the subject and we keep closely monitoring the situation."** Mehran is of opinion that the impact of the turnover tax ("Belasting op Bedrijfsomzetten" (BBO)), is still being felt although less than in 2007. In addition, higher gasoline prices, as well as increased tariffs for water and electricity, pushed up by increases in the international price of oil, added to the upward pressure on domestic prices. **"This resulted in a further deterioration in Aruba's international competitive position. The inflation differential with the United States our main trading partner widened noticeably from 1 to 2.8%. The 12-month average inflation rate reached 6.0 percent in 2007 (2006: 3.6 percent), the highest since 1994."**

Mehran says that the Central Bank has taken corrective measures to control the overall level of liquidity in the market and they have discussed and

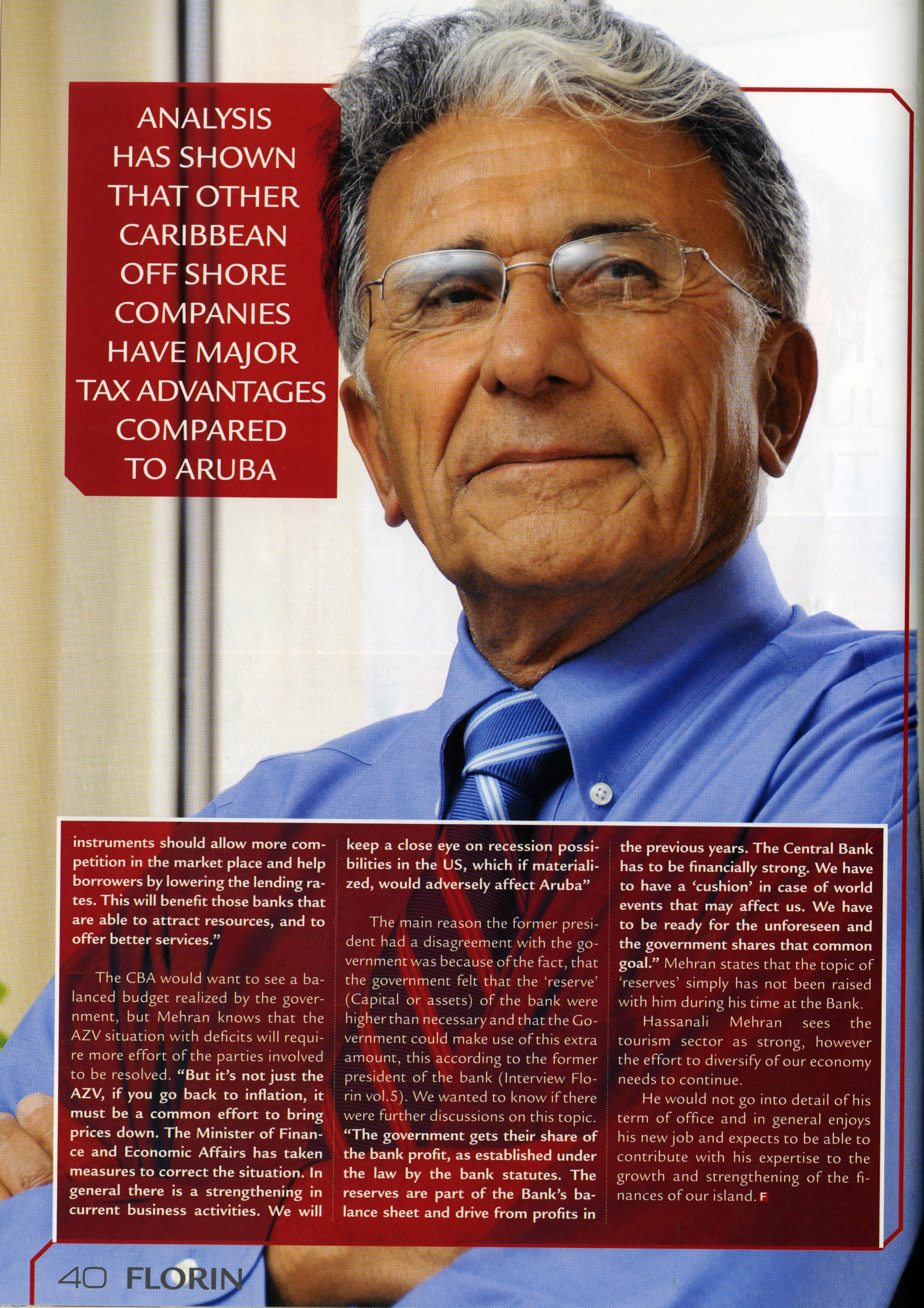
suggested steps the government can take to keep inflation under control.

Central Bank presidents in the past have had difficulty communicating the hard facts to the government of Aruba and some have had their contract terminated when the statements were not in line with what the governments wanted to hear. Here we are referring to most bank presidents under different governments. The question is then how does the president of the bank give the news without irritating the government. **"You must always tell the truth, just be mindful how you say it. It's not only what you are saying, it's also how you are saying it that will determine whether your intended audience will receive this communication clearly."** Mehran states that it's just his way of doing things. He feels that there is a much better chance that your recommendations will actually be implemented if you know how to communicate them effectively.

There has been talk through the years for Aruba to become an international financial services center and

the possibilities of off shore companies have always been limited, so what are the difficulties that are preventing these ideas. **"The high level of direct taxes in Aruba are major constraints to develop Aruba as an international financial services center. When it comes to off shore companies, analysis has shown that other Caribbean off shore companies have major tax advantages compared to Aruba. The recent fiscal changes in Aruba via the implementation of the 'New Fiscal Framework' were mainly geared towards promoting Aruba as compliant with the Caribbean Financial Action Task Force's recommendations, however there are other ideas on the table being discussed with the stakeholders"**

The big news for the banking sector was the announcement, that the credit ceiling will be eliminated for all local banks by the end of 2008. Hassanali Mehran explains the changes. **"The old system had certain restrictions that we thought could be lifted and a new system of indirect instruments could be introduced. These**

A close-up portrait of Hassanali Mehran, an older man with grey hair and glasses, wearing a blue shirt and a striped tie. He is looking slightly to the right with a thoughtful expression. The background is a blurred office setting.

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instruments should allow more competition in the market place and help borrowers by lowering the lending rates. This will benefit those banks that are able to attract resources, and to offer better services."

The CBA would want to see a balanced budget realized by the government, but Mehran knows that the AZV situation with deficits will require more effort of the parties involved to be resolved. **"But it's not just the AZV, if you go back to inflation, it must be a common effort to bring prices down. The Minister of Finance and Economic Affairs has taken measures to correct the situation. In general there is a strengthening in current business activities. We will**

keep a close eye on recession possibilities in the US, which if materialized, would adversely affect Aruba"

The main reason the former president had a disagreement with the government was because of the fact, that the government felt that the 'reserve' (Capital or assets) of the bank were higher than necessary and that the Government could make use of this extra amount, this according to the former president of the bank (Interview Florin vol.5). We wanted to know if there were further discussions on this topic. **"The government gets their share of the bank profit, as established under the law by the bank statutes. The reserves are part of the Bank's balance sheet and drive from profits in**

the previous years. The Central Bank has to be financially strong. We have to have a 'cushion' in case of world events that may affect us. We have to be ready for the unforeseen and the government shares that common goal." Mehran states that the topic of 'reserves' simply has not been raised with him during his time at the Bank.

Hassanali Mehran sees the tourism sector as strong, however the effort to diversify of our economy needs to continue.

He would not go into detail of his term of office and in general enjoys his new job and expects to be able to contribute with his expertise to the growth and strengthening of the finances of our island. **F**